



Heat Networks Market Study  
Competition and Markets Authority  
7th floor  
Victoria House  
37 Southampton Row  
London WC1B 4AD

Email: [heatnetworks@cma.gov.uk](mailto:heatnetworks@cma.gov.uk)

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### **Invitation to comment on the Market Study Update Paper**

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage, and energy and heating supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users. Energy Services is a growing part of our business in the UK that supports the integration and growth of city-wide low carbon district heating and cooling networks with a wide range of technologies. We also provide billing and customer services to administer these networks.

We welcome the opportunity to respond to the CMA's Heat Network Market Study Update Paper.

EDF Energy supports the creation of a mandatory regulatory regime covering the development and operation of heat networks across the GB. There has already been considerable work across the industry to develop both consumer protection and technical standards that many heat networks already adhere to. These should form the basis of any regulatory framework but with the enhancement of the mandatory requirement to sign up to and comply with them. Ofgem is the most appropriate regulatory body to develop and administer the overall regime, given that it possesses the appropriate statutory and regulatory experience to organise and enforce the necessary principles-based regulation. This reflects Ofgem's position on its future priorities, referenced in this update paper (para. 2.43). Bringing heat networks under Ofgem's remit will enable the alignment of consumer protections between heat network end users and customers with conventional gas supplies, with a particular focus on customer information, redress and billing.

EDF Energy supports the application of a principle of proportionality for the determination of consumer heat prices, and that this should cover all such domestic networks. However, the CMA or any relevant regulatory body should take care to provide sufficient flexibility and headroom to enable investors, developers and operators to set prices, which enable a reasonable rate of return, at a fair, appropriate, and affordable level for consumers. Given the government's desire for the expansion of this sector as a key part of its policy to decarbonise heat in the UK, and the benefits this can subsequently provide to consumers, it is vital private investment in heat networks is appropriately incentivised. This should be achieved while also incentivising efficiency and maintaining consumer protection.

**EDF Energy**  
90 Whitfield Street  
London W1T 4EZ  
Tel +44 (0) 20 32196911

**edfenergy.com**  
*EDF Energy plc.*  
*Registered in England and Wales.*  
*Registered No. 2366852.*  
Registered office: 90 Whitfield Street  
London W1T 4EZ

Additionally, such a principle should take into account the different funding structures used for heat network developments. EDF Energy notes that for heat networks that are accredited by the Heat Trust, the variable heat charges are typically determined by an average of the six largest suppliers' prices for the relevant postcode area. This establishes a fair and proportionate approach to price setting that achieves the above. Equally, it aligns closely with the proposed Option (a) (para. 7.72) enabling a 'principles based' approach with self-reporting and the ability of a regulator to investigate complaints.

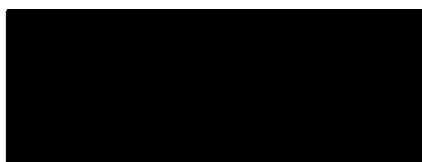
Minimum technical standards, appropriately measured, are critical to ensure quality and efficiency in network operation. These technical standards should be considered as a point of guidance rather than prescribing specific requirements, to do otherwise would risk curtailing innovation in the sector. The Heat Trust scheme is recognised across the industry, and the Chartered Institute of Building Services Engineers and Association of Decentralised Energy's CP1 Code of Practice provide options for a model technical standard which can be broadly applied across the sector. However, the ongoing revision to this CoP must align with best practice from relevant industry stakeholders. Incorporating this best practice, and ensuring the final version is future-proofed to remain suitable as mandatory minimum technical standards, must be made a priority in the CMA's Final Report.

The creation of heat network technical training and qualifications remains a significant barrier to further expansion of this sector. It is critical to address the likely shortfall in technical resources required to successfully meet the Government's ambitions to deliver long-term resilient, efficient heat networks. In April 2018, the Government launched the Heat Networks Investment Project, a major project which will invest £320m of capital funding in heat network projects through grants and loans. It is critical that heat networks training delivered as Further and Higher Education is included in the scope of this investment, and that the appropriate supporting measures are in place to ensure successful applicants receive consistent technical and commercial guidance.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact Martin Pearce on 07875 112 299, or myself. We look forward to the final report later this year.

I confirm that this letter may be published on the CMA website.

Yours sincerely,

A large black rectangular redaction box covering the signature area.

**Paul Delamare**  
**Head of Customers Policy and Regulation**